Task Force on Climate-related Financial Disclosures

Overview of Recommendations

April 2018

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

BACKGROUND

G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

The FSB established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related disclosures that:

- could "**promote more informed investment, credit, and insurance underwriting decisions**" and,
- in turn, "would enable stakeholders to **understand better** the concentrations of **carbon-related assets in the financial sector** and the financial system's **exposures to climate-related risks**."

Industry Led and Geographically Diverse Task Force

The Task Force's 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.

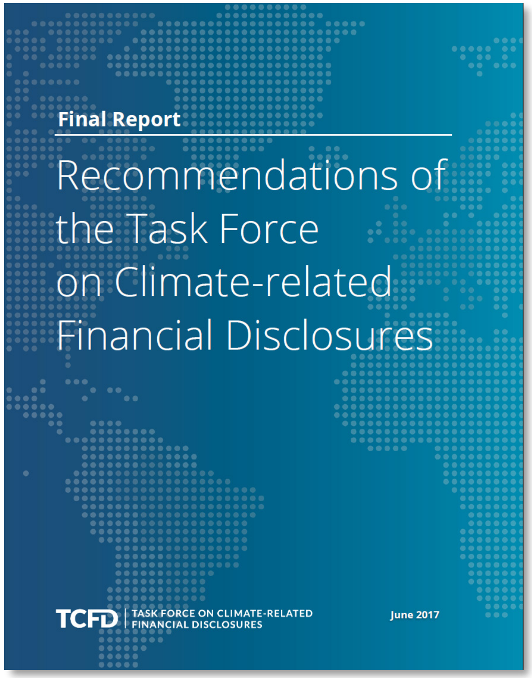
13 Experts from the Financial Sector

9 Experts from Non-Financial Sectors

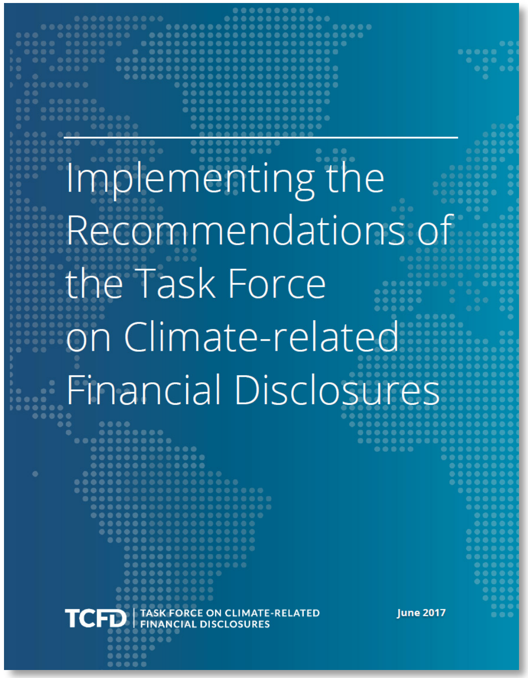
9 Other Experts

BACKGROUND (CONTINUED)

The Task Force's report and supporting materials were published in June 2017.



The report provides context, background, and the general framework for climate-related financial disclosures—it is intended for broad audiences.



The annex provides the next level of detail to help companies implement the recommendations.

The technical supplement is a further level of detail that can be helpful for companies in considering scenario analysis.

Focus on Financial Impact

RISKS

Transition

Policy and Legal
- Carbon pricing and reporting obligations
- Mandates on and regulation of existing products and services
- Exposure to litigation

Technology
- Substitution of existing products and services with lower emissions options
- Unsuccessful investment in new technologies

Market
- Changing customer behavior
- Uncertainty in market signals
- Increased cost of raw materials

Reputation
- Shift in consumer preferences
- Increased stakeholder concern/negative feedback
- Stigmatization of sector

Physical
- Acute: Extreme weather events
- Chronic: Changing weather patterns and rising mean temperature and sea levels

OPPORTUNITIES

Resource Efficiency
- Use of more efficient modes of transport and production and distribution processes
- Use of recycling
- Move to more efficient buildings
- Reduced water usage and consumption

Energy Source
- Use of lower-emission sources of energy
- Use of supportive policy incentives
- Use of new technologies
- Participation in carbon market

Products & Services
- Development and/or expansion of low emission goods and services
- Development of climate adaptation and insurance risk solutions
- Development of new products or services through R&D and innovation

Markets
- Access to new markets
- Use of public-sector incentives
- Access to new assets and locations needing insurance coverage

Resilience
- Participation in renewable energy programs and adoption of energy-efficiency measures
- Resource substitutes/diversification

Strategic Planning
Risk Management

Financial Impact

Revenues
Expenditures

Income Statement

Cash Flow Statement

Balance Sheet

Assets & Liabilities
Capital & Financing

Disclosure Recommendations

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Disclosure Recommendations *(continued)*

The four recommendations are supported by **specific disclosures** organizations should include in financial filings or other reports to provide decision-useful information to investors and others.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Supplemental Guidance

In addition to guidance for all sectors, the Task Force developed **supplemental guidance** for the financial sector and non-financial groups to assist those organizations in implementing the recommended disclosures.

Financial Sector Industries

- Banks
- Insurance Companies
- Asset Managers
- Asset Owners

The financial sector was organized into four major industries largely based on activities performed. The activities are lending (banks), underwriting (insurance companies), asset management (asset managers), and investing (asset owners).

Non-Financial Groups

- Energy
- Transportation
- Materials and Buildings
- Agriculture, Food, and Forest Products

The non-financial groups identified by the Task Force account for the largest proportion of GHG emissions, energy usage, and water usage.

Key Elements of Disclosure Recommendations

Location of Disclosure

- The Task Force recommends that organizations provide climate-related financial disclosures in their mainstream (i.e., public) **annual financial filings**.

- The recommendations were developed to apply broadly across sectors and jurisdictions and do not supersede national disclosure requirements for financial filings.

- If certain elements are incompatible with national disclosure requirements, the Task Force encourages organizations to disclose those elements in **other official company reports**.

- Organizations in the four non-financial groups that have more than one billion U.S. dollar equivalent (USDE) in annual revenue **should consider disclosing** strategy and metrics and targets information in other reports when the information is not deemed material and not included in financial filings.

Financial Filings

Required annual reporting packages in which organizations deliver their audited financial results under the laws of the jurisdictions in which they operate.

Other Official Company Reports

Should be issued at least annually, widely distributed and available to investors and others, and subject to internal governance processes that are the same or substantially similar to those used for financial reporting.

Key Elements of Disclosure Recommendations *(continued)*

Principle of Materiality

- The disclosures related to the **Strategy and Metrics and Targets recommendations** are subject to an assessment of materiality.
- The disclosures related to the **Governance and Risk Management recommendations** are not subject to an assessment of materiality and should be provided because many investors want insight into the governance and risk management context in which organizations' financial and operating results are achieved.

Scenario Analysis

- The Task Force encourages forward-looking information through scenario analysis—a useful tool for considering and enhancing resiliency and flexibility of strategic plans.
- Many investors want to understand how **resilient organizations' strategies are to climate-related risks**.
- Recommended disclosure (c) under Strategy and the related guidance asks organizations to describe the resilience of their strategies, taking into consideration different climate-related scenarios, including **a 2°C or lower scenario**.

2°C Scenario

Provides a common reference point that is generally aligned with the objectives of the Paris Agreement.

Scenario Analysis Threshold

The Task Force established a threshold for organizations that should consider conducting more robust scenario analysis to assess the resilience of their strategies (those in the four non-financial groups with more than 1B USDE in annual revenue).

Scenario Analysis

Scenario analysis is an important and useful tool for understanding the **strategic implications of climate-related risks and opportunities**.

The Task Force recommends that organizations describe the resilience of their strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Strategy
Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Recommended Disclosure	**Guidance for All Sectors**
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Organizations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organization, scenarios consistent with increased physical climate-related risks. Organizations should consider discussing: – where they believe their strategies may be affected by climate-related risks and opportunities; – how their strategies might change to address such potential risks and opportunities; and – the climate-related scenarios and associated time horizon(s) considered.

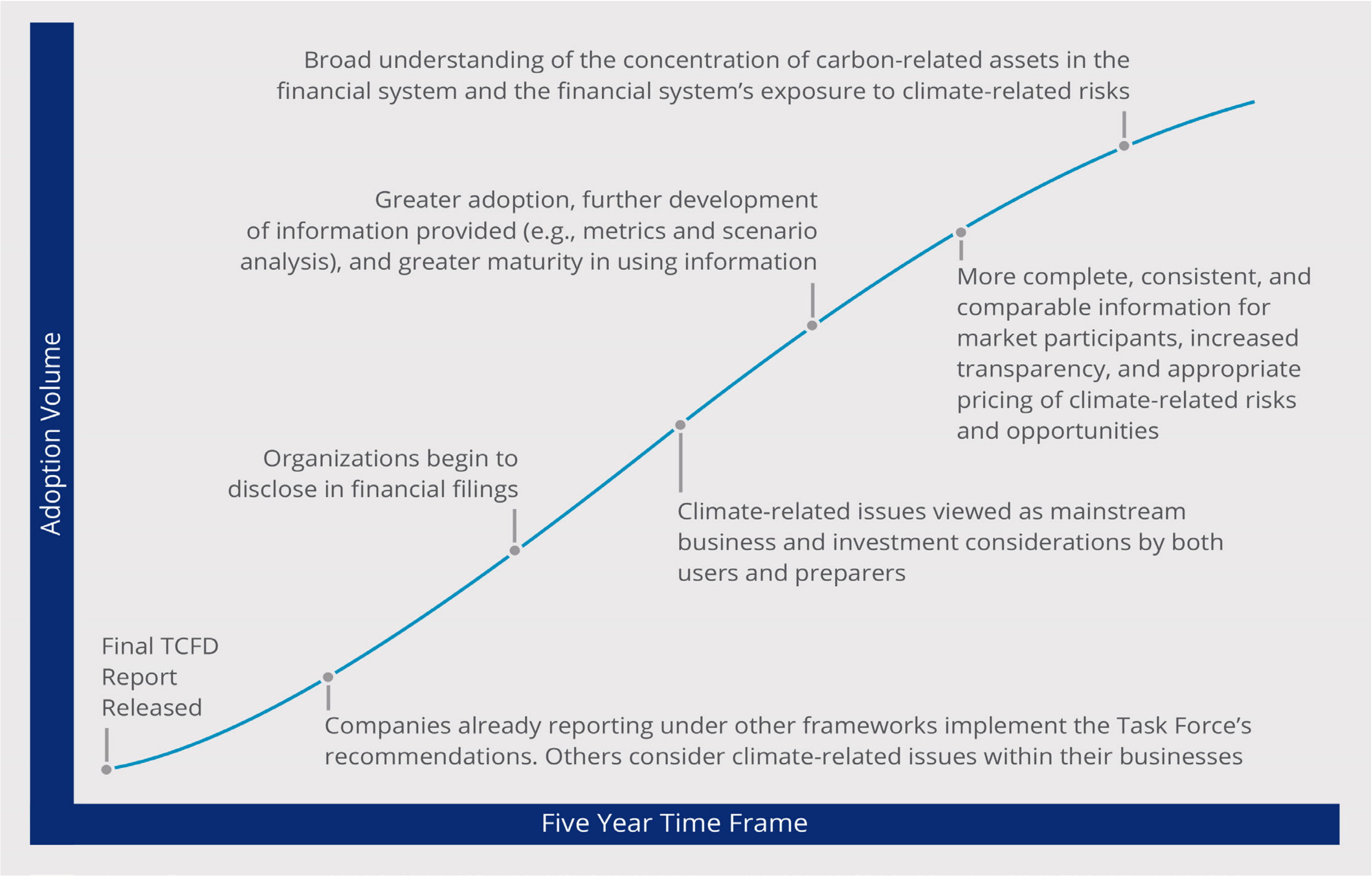
Benefits of Implementing the Recommendations

Some of the potential benefits associated with implementing the Task Force's recommendations include:

- easier or better access to capital by increasing investors' and lenders' confidence that the company's climate-related risks are appropriately assessed and managed
- more effectively meeting existing disclosure requirements to report material information in financial filings
- increased awareness and understanding of climate-related risks and opportunities within the company resulting in better risk management and more informed strategic planning
- proactively addressing investors' demand for climate-related information in a framework that investors are increasingly asking for, which could ultimately reduce the number of climate-related information requests received

ILLUSTRATIVE IMPLEMENTATION PATH

The TCFD expects that **reporting of climate-related risks and opportunities will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.



Supporting Organizations

As of April 2018, over 270 organizations have expressed their support for the TCFD, including over 150 financial firms responsible for assets of more than $81.7 trillion.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

June 29, 2017

In signing this statement, we affirm our commitment to support the voluntary recommendations of the industry-led Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD). We believe that climate change will have significant impacts across many sectors and that we, as business leaders, have an important role to play in ensuring transparency around climate-related risks and opportunities.

We encourage other business leaders to join us in this united effort to improve disclosure across sectors and regions. The Task Force's recommendations will catalyze more consistent, comparable, and reliable disclosure of climate-related information that will facilitate more informed business and investment decision-making.

These disclosures are an important step forward in enabling market forces to drive efficient allocation of capital and support a smooth transition to a low-carbon economy.

In signing this letter, we are proud to express our support for better disclosures of climate-related risks and opportunities and we urge other business leaders to do the same.

3 July 2017

LETTER FROM GLOBAL INVESTORS TO GOVERNMENTS OF THE G20 NATIONS

This letter is signed by 390 investors representing more than USD $22 trillion in assets.

As long-term institutional investors, we believe that the mitigation of climate change is essential for the safeguarding of our investments.

We have previously conveyed our strong support for the Paris Agreement and we reiterate our call for governments to continue to support and fully implement the Agreement.

Commit to implement the recommendations of the Task Force on Climate-related Financial Disclosures

Climate change poses serious risks to the global economy. Nonetheless, investors and financial markets lack clear and comparable information about which companies or assets are most exposed to this issue and which are best prepared.

To address this issue, companies are encouraged to commit to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD has published recommendations for reporting climate-related financial information in mainstream reports (annual financial filings).

Companies, investors and financial organizations globally are encouraged to implement the recommendations to allow a more efficient allocation of capital, improve the dialogue among all financial players and support a smooth and rapid transition to a low-carbon economy.

Read the commitment

Open letter to the Task Force on Climate-related Financial Disclosures

Dear Mr. Bloomberg, dear Task Force Members,

as a network of leading, globally active companies and organizations of German business, the goal of econsense is to provide a platform for dialog and a think tank to advance sustainable development. econsense and its 36 member companies are committed to the Paris Agreement and welcome this common and global approach to tackle climate change. We recognize the relevance of a comprehensive approach for the disclosure of climate-related risks and opportunities. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) are a step towards a more consistent, comparable, and reliable disclosure of climate-related information and have the potential to facilitate more informed business and investment decision-making.

econsense member companies report on climate-related information in various initiatives. Thus, we would like to emphasize the need for the alignment of existing approaches to avoid increasing reporting burdens and to reduce complexity of reporting requirements for companies. A pilot phase and voluntary field-testing of the final recommendations of the TCFD by individual firms will be of utmost importance to ensure their applicability and validity. We are available for further discussion and advocate an open dialog about the meaningful operationalization of the recommendations of the TCFD and the implementation of the Paris Agreement.

To further elaborate our position:

We believe that climate change will have significant impacts across many sectors and that business has an important role to play in providing the innovations needed to combat climate change. We also see the need to ensure transparency around climate-related risks and opportunities. Disclosure and management of climate-related risks and opportunities support long-term, successful and sustainable value creation.

Global Investors Driving Business Transition

The Paris Agreement set an ambitious goal to hold average global warming to well below 2-degrees Celsius and to reach net zero greenhouse gas emissions by the second half of the century. Doing so will require significant cuts in global greenhouse gas emissions — on the order of 80 percent by 2050.

In support of the Paris Agreement, more than 400 investors representing more than US $24 trillion signed the Global Investor Statement on Climate Change. The statement included the following commitment:

"As institutional investors and consistent with our fiduciary duty to our beneficiaries, we will work with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximizing the opportunities presented by climate change and climate policy."

Climate Action 100+ is a new five-year investor initiative to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change.

Global CEOs call for greater disclosure of climate risks and opportunities

Image: REUTERS/Andrew Winning

Beginning the Journey – Illustrative Roadmap

For organizations in early stages of assessing climate-related risks and opportunities, it may be helpful to develop a roadmap for implementing the recommendations.

Year 1

- Compare current disclosures to the recommendations, especially Governance and Risk Management, and identify alignment and gaps
- Determine information and data needs and process changes
- Begin evaluating metrics for assessing climate-related risks and opportunities
- Incorporate climate-related risks into risk identification and assessment process as needed
- Assign oversight to board committees and management as needed
- Disclose information related to Governance and Risk Management recommendations or disclose intention to implement the TCFD recommendations

Year 2

- Implement new processes for information and data collection and reporting
- Identify metrics useful for assessing climate-related risks and opportunities
- Adjust data collection to support metrics
- Identify climate-related risks and opportunities and assess whether they are material
- Identify relevant climate-related scenarios and consider how those scenarios might affect the organization
- Disclose information related to Governance and Risk Management recommendations and item (a) of the Strategy recommendation, where the information is material

Year 3

- Calculate and use metrics for assessing climate-related risks and opportunities
- Integrate scenario analysis into strategic planning and/or risk management frameworks
- Disclose information related to Governance and Risk Management recommendations
- Disclose information related to Strategy and Metrics and Targets recommendations, where the information is material

Extension of TCFD Remit

In February 2017, the FSB welcomed a proposal by the Task Force to continue its work until at least September 2018 with a focus on the following:

- promoting and monitoring adoption of the TCFD's recommendations by companies
- evaluating the extent to which the recommended disclosures are meeting the needs of users

Timeline for the Task Force's Work

The Task Force is working with industry associations and other organizations to promote and monitor adoption of the TCFD recommendations and will submit a report to the FSB in September 2018.

Timeline

Third Quarter 2017	Fourth Quarter 2017	First Quarter 2018	Second Quarter 2018	Third Quarter 2018

Jul 7-8: TCFD report presented at G20 Summit

Q3 2018: Submission of monitoring report

Q4 2017-Q3 2018: Implementation monitoring

Q3 2017-Q3 2018: Outreach and engagement

Jun 29: Issuance of final report

Current and Planned Activities

Since its report was issued, the Task Force has been focused on promoting adoption of the recommendations through the activities described below.

Current and Planned Activities

- Held a two-day conference in 2017 in collaboration with the Bank of England on scenario analysis and will hold a conference on the TCFD and scenario analysis in NYC in May.
- Conducting preparer workshops to support implementation.
- Speaking at conferences to build awareness and understanding of the TCFD recommendations.
- Engaging with companies working on implementation of the recommendations to clarify expectations.
- Promoting availability of tools and resources.
- Supporting formation of “preparer forums” for companies address implementation issues and improve their disclosure inline with the TCFD.
- Engaging with industry associations and NGOs to identify areas of common interest and possible collaboration.
- Engaging with financial and non-financial companies, investors, industry associations, NGOs, and others to gain additional support for the recommendations.
- Supporting integration of the TCFD recommendations into existing climate-related reporting frameworks.

APPENDIX

Task Force Members

Chair and Vice-Chairs

Michael Bloomberg
Chairman
Founder and President
Bloomberg L.P.

Yeo Lian Sim
Vice-Chair
Special Adviser
Singapore Exchange

Denise Pavarina
Vice-Chair
Managing Officer
Banco Bradesco

Graeme Pitkethly
Vice-Chair
Chief Financial Officer
Unilever

Christian Thimann
Vice-Chair
Group Head of Strategy, Sustainability and Public Affairs
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Members

Jane Ambachtsheer
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Matt Arnold
Managing Director and Global Head of Sustainable Finance
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Koushik Chatterjee
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Liliana Franco
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Air Liquide Group

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Mitsubishi Corporation

Udo Hartmann
Senior Manager, Group Environmental Protection & Energy Management
Daimler

Neil Hawkins
Corporate Vice President and Chief Sustainability Officer
The Dow Chemical Company

Thomas Kusterer
Chief Financial Officer
EnBW

Diane Larsen
Audit Partner, Global Professional Practice
EY

Stephanie Leaist
Managing Director, Head of Sustainable Investing
Canada Pension Plan Investment Board

Eloy Lindeijer
Chief, Investment Management
PGGM

Ruixia Liu
General Manager, Risk Department
Industrial and Commercial Bank of China

Giuseppe Ricci
Chief Refining & Marketing Officer
ENI

Martin Skancke
Chair, Risk Committee
Storebrand

Steve Waygood
Chief Responsible Investment Officer
Aviva Investors

Martin Weymann
Head Sustainability, Political & Emerging Risk Management
Swiss Re

Fiona Wild
Vice President, Sustainability and Climate Change
BHP Billiton

Michael Wilkins
Managing Director, Environment & Climate Risk Research
S&P Global Ratings

Jon Williams
Partner, Sustainability and Climate Change
PwC

Special Adviser

Russell Picot
Chair, Audit and Risk Committee, LifeSight
Board Chair, HSBC Bank (UK) Pension Scheme Trustee
Former Group Chief Accounting Officer
HSBC

DEVELOPMENT OF RECOMMENDATIONS

In developing its recommendations, the Task Force:

- Considered the **challenges for preparers** of disclosures as well as the **benefits** of such disclosures to investors, lenders, and insurance underwriters

- Engaged in **significant outreach and consultation** with users and preparers of disclosures and other stakeholders, including two public consultations, individual discussions and focus groups with industry, webinars, and outreach events in multiple countries

- Drew from existing climate-related disclosure regimes and sought to develop a decision-useful framework to **align and supplement existing disclosure frameworks**

- Created **guidance** for all sectors and supplemental guidance for specific sectors

The Task Force expects that **reporting of climate-related information will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.